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Audience Q&A

Craig Cline: I'm Craig Cline, Vice President of Content for Seybold Seminars. I know it's early in the morning. I've been musing about this because I know a lot of you guys are Web folks. I know Web folks normally don't get up before about two in the afternoon. In the future should we start this conference around noon? Hands up if you think it should be started way later in the morning. Oh, not that many of you. I guess a lot of you are here maybe in disguise. Is that true?

How many here are really secretly print people but you came here to find out what the other half is like. Raise your hand. Come on. Be honest. Well, okay. If David Ballantine is here he's going to need this to do really much else today. He dropped it on his way in. I shall make it available to him after the seminar. Actually, I'll put it on the stage here. We'll see if he dares come get it some time during the keynote.

So, how many of you attended the Web Secrets Day yesterday? That was wacky, wasn't it? What was it, that guy who was the evil twin who went tearing around throwing water and all sorts of... Not typical of a Seybold conference. But probably very typical of people who stay up too late trying to get Web sites up and running, keeping them running. Because you've got to do something to let off that steam.

So, this is a keynote. And what we try to do at our keynotes is bring together several people who come up and issue from different perspectives. And we don't give them a lot of instruction. We just say, "Talk about what you think an audience would want to hear about in terms of your view of the future of our business." And that takes different angles. I selected several people who I think will tackle it from a different direction.

The way I will run this session is each keynoter will come up, give their presentation, sit down. And then at the end of that, I'll have all three of them come back on stage, with John Duhring, who's our associate conference director, and myself. And we'll do Q&A. But as you see, there are two microphones there. So when we get to the Q&A, it's your opportunity to jump in and participate.

So, the first speaker this morning will be Bob Ingle, who just told me that he has a new job at Knight-Ridder. He's now President of the Knight-Ridder Venture company. But before that, he was running Knight-Ridder New Media. And Knight-Ridder, in my estimation, has been one of the most aggressive of the traditional media companies in terms of really pushing the new media to its limits. And so, I'd like us to give a warm welcome to Bob Ingle. [Applause]

Bob Ingle: Thank you, Craig. Good morning. Today I want to talk about the Internet landscape, and most especially, Internet publishing and Internet commerce. I always enjoy coming to Boston. A unique city, like all great cities, all real cities. And the last time I was here, about a month ago, I arrived in time for dinner. I was by myself. Went to one of Boston's finest seafood restaurants. And got seated over

where they seat all the single diners. And next to me was an attractive, middle-aged woman, a librarian from Louisville here for a convention. And she was trying to decide what kind of fish to have. And the waiter suggested the mackerel. "No, I don't think so," she said. Then how about the cod? "It's very fresh." "No," she said, "that reminds me too much of the cod liver oil I had to take when I was a child."

So now the waiter was getting slightly edgy, because the restaurant was very busy. And so he suggested would you like to have scrod. The lady smiled and replied, "Why, yes, yes indeed. But you know what, I think that's the first time I've ever been asked in the past pluperfect tense."

More seriously, let me ask a couple of questions. How many of you think that most of the key dynamics of the Web are already in place? Nobody. Oh, I'was assuming some of you did! Most of you probably have some convictions about the Internet landscape. And some of those may well be myths. And today what I want to do is to take a look at some of the myths.

Anybody who thinks that the current Web landscape is now cast in stone couldn't be more wrong. It's very, very early. The Web is only five years old. All of the research shows that people are getting more and more of their news and information from the Web, at the expense of broadcast televisions, of cable, and yes, of newspapers.

How did people get information before newspapers? For that matter, before moveable type? Well, first there was word of mouth. There were handbills. There were town criers. In the Middle Ages, information was extremely limited. But in the case of handbills and town criers, it was also highly condensed and tightly packaged. Even early newspapers like Ben Franklin's presented an easy-to-browse compendium of the day's news and the day's advertising.

Now the Internet is raining upon us a wealth of information, more than the world has ever seen and certainly faster than it's ever seen. But I urge you to compare the highly digested, targeted forms of the Middle Ages to getting information on the Web. The Web is very close to utter chaos.

The noted economist Herbert Simon said it best. He said, "Information consumes the attention of its recipients. A wealth of information creates a poverty of attention and a need to allocate that attention." Well, I don't know about you, but I am having a hard time allocating my attention in the age of the Internet. As is often the case, the key characteristics of the Internet's power also contain the seeds of its weaknesses. And what that means is that anybody who can create a more effective way of getting users to content and services of high quality will have a market cap bigger than Amazon's.

Do you know how most people navigate the Web? I've watched focus groups on this subject, experienced users of three years or more. And the answer was stunning: they guess at URLs. They guess at URLs. Anybody here do that? Okay, quite a few! [Laughter] I remember one guy who said, "I know that sounds stupid, but it works about three quarters of the time." And then the interviewer followed up. "Well, if that doesn't work, then what do you do," she asked. Answer? Then they turn to the search engines. Repositioned in the last year as portals.

A friend of mine in a bar one night said portals? "Ha! I want to build a portal." Somebody else at the bar said, "Never mind, it's already been done." But, I digress.

The fact is that users are very, very frustrated by the so-called portals. Mostly they search. One woman said in a focus group, "The problem is that I either get a 100,000 returns or none at all." And these focus groups showed that users have almost no loyalty to any given portal. They hop around. Little by little, they find entire sites that satisfy some need. And they stick to a handful of those. The portals will have

you believe that the keys to the kingdom are in directories. They'd like to believe that. Because directories can drive up a portal's page views, and that's revenue.

But the reality is that most users turn to directories only after they abandon searching in utter frustration. Last week, International Data Corporation issued a report confirming our focus groups. Very low user loyalty. In fact, both search and directory have some severe problems. Foremost of those is timeliness. So many links are no longer current that I'm sure everybody in this room is familiar with "error 404 not found." In fact, the GenXers in my shop refer to somebody who in my youth we would have said was out to lunch, as "he's pretty much 404."

So let me tell you a little tale of portals. One night last week, I read a piece in *Information Week* about a new AT&T technology called Project Angel. And it's a technology that allows high bandwidth wireless transmission from the home to a neighborhood node, which is then connected to the network by fiber. By the time I read the piece, it was probably nine or ten days old. So I wondered if anybody had a more detailed piece or more background on the subject. I'll find it on the Web!

I went first to Excite; nothing. Then I went to Infoseek. Nada. At both those portals, I did find links to the Angel Doll Project, Project Angel Interfaith Network in Pasadena, a Project Angelfood effort for volunteers in Denver, and a bunch of other meaningless returns. Then I went to Lycos. Really nada. I mean, not even any false returns. Lycos has a long way to go. Snap, Looksmart, Alta Vista; same thing. Nothing. Then I tried Yahoo! There I found one meaningful link, but it was about two years old. Then I tried the Excite news search on Netscape, and I found one good link to the same *Information Week* article I had already read in print, that triggered the search a half an hour ago. Nobody but nobody among the search engines have licked the timeliness problem.

So that's myth number one. The portals have permanently nailed their positions in the top 10 sites. Not.

Myth number two is that Microsoft owns the desktop and the operating system. But as I see it, the tide of perception has turned very sharply on Microsoft over the last 12 months. The steam behind Linux, I mean Linux for god's sake, has from Intel from the PC makers and from competitors in enterprise software, is simply stunning. For the first time, people are saying, "Wait a minute. This is an overly priced and infuriatingly flawed OS." Others, in addition to Linux, are slowly starting to rise. The Mac OS is coming back. The BeOS. There's even a [...missing line...] supposed to do: produce better products and more choices. And I think that's the bottom line of the trial in Washington.

Myth number three is that news and news-related information and commentary is a commodity on the Web. I don't believe it. What is a commodity is commodity news. Superficial news. What is in great demand if people could just find it is specialized information that's credible. And as a corollary, I would suggest that information that fits people's local lives is precious. People's mindshare is pretty concentrated at two ends of a dog bone. Think of it as two circles connected by a line. And one circle is where they work, and the other is where they live. They don't care very much about the line in between, but they really care about each of those two circles.

The portals port to only superficial local information in most cases. So it's not surprising that when the folks at Compaq set out to build Alta Vista into a spinoff, they decided that what today's leaders are missing is local information that's deep, credible, and relevant. So that's why it's buying Zip2 Corporation. A very smart move.

Digital City, by and large, doesn't have deep, credible, local information. Sidewalk doesn't have a lot either. And neither do the other big portal brands. That's what we believe we have in our Real Cities

network. Our network of 40 Web sites. Local information, useful in daily living, is critically important to people. Because despite the Internet, despite air travel, despite the frantic pace, most people live their lives locally. And that's what the Real Cities network is all about. The deepest, widest, most trusted source of local information you can find anywhere on the Web. That's the Real Cities promise, and Knight-Ridder is completely focused on living up to that promise.

Myth number four is that branding is king on the Internet. Well, it certainly is important. Most people believe that brands are distribution on the Internet. And I agree. But let's remember a little bit of history. Brands didn't save the Bunch. Anybody here old enough to remember the Bunch? That was Burroughs, Univac, NCR, Control Data and Honeywell. All incredibly strong computer services brands at one time. And now all gone or walking dead. Now they should be called Bunchd, with a D at the end, because Digital has to be added. It sure doesn't look as if powerhouse brands are saving Sears or K-Mart. It certainly didn't save Hayes Modems, which at one time owned the language: Hayes-compatible modems. Branding is essential, but surely not enough to win by itself.

Most of us don't have the hundreds of millions of dollars to do traditional branding campaigns, so we all have to get better at doing it the way America Online and Yahoo did it, by guerrilla marketing and word of mouth.

Myth number five is this thing that the MBAs call First Mover Advantage. And the premise that it's unassailable. I don't really believe that. The trade press, the business press, and the mainstream press treats Amazon.com as if the book wars are over and Amazon has won. Amazon has a market cap of $20 billion, even though it lost $124 million last year. The other day Tom Friedman in the *New York Times* wrote about an Amazon competitor, a fellow named Lyle Boland, who sells books on the Internet from his spare bedroom in Cedar Falls, Iowa, at a site called Positively-You.com. He buys from the same distributors, offers the same basic services, but he beats Amazon on price. He offers 35 percent off the cover price instead of 30, and his shipping is cheaper. I looked up a book called *Breakthrough Thinking* on both sites. Lyle sells it for $17 including shipping. Amazon charges $18.45, or 8.5 percent more. So, if you're holding any Amazon stock, you might want to ponder that.

So if somebody else already has first mover advantage, how can you take a run at that opportunity? Well, first thing is you can learn from their mistakes. All of us make them, but most of us don't spend enough time analyzing our own mistakes and those of other people, particularly first movers. Second, first movers very soon have their own legacy baggage. You can outrun somebody lugging a suitcase. Still others are tiptoeing very gingerly into electronic commerce, asking exactly the wrong questions at a time when e-commerce is exploding.

I love the way Andy Grove of Intel put it, responding to a question. What's my ROI on e-commerce? Are you crazy? This is Columbus in the New World. What was his ROI?

Newspapers have had a tough time figuring out how to compete in a totally different universe. If you think about it, for the last 30 or 40 or 50 years, newspapers have been like the walled cities of Tuscany. Sure, every once in a while the city on the next hill might attack. But if your walls were strong enough and your troops weren't total sloths, you could stave it off at least long enough to negotiate decent terms.

Look what we're facing now. Unbridled, wide-open competition against everybody from Microsoft with $20 billion in cash or whatever it is this week, to two guys in a garage with a good idea and not enough money between them to buy a pizza. Suddenly, we are thrust into a world that does not abide by the newspaper equivalent of the Geneva Convention. Still, I think newspapers can compete, and for that matter, can win.

Our assets are at once an opportunity and a millstone in a marathon race. We do have valuable content. We do have valuable relationships with advertisers. We do have credibility with much of the audience. What we may not have is the organizational skills to realize that the assets must be cut apart from their millstone attributes. Succeeding on the Internet is, in fact, a marathon. We're at maybe two miles out of 26. Many of us are running hard, but we haven't necessarily been running smart. But we are in the race. And if we put the right kind of organization in place, we're learning what will be important in the last 24.

Day before yesterday, Jupiter said that we're about to see a resurgence of media companies on the Web, because in fact content of high quality will displace some of the early Web dynamics. And media companies have content in spades. A lot of what you see among those whose revenues depends on who's paying them--I'm talking about the research companies--is playing to the audience. But hey, it's okay, they're building a business. Personally, I tout whoever's agreeing with me at a given moment. So in the slipstream of this Internet rocket, so for today and today only, I think Jupiter's got it right and Forrester's full of beans.

Jim Barksdale, the CEO of Netscape, was good enough to speak to a gathering of Knight-Ridder publishers and senior officers a couple of weeks ago. In the Q&A, somebody asked him, "So how did you go about deciding how to run such a breakthrough company as Netscape?" And here's what he said. "When I went to the very first employee meeting after I arrived, somebody asked me that very same question. And I said the way I see it, there are really only two ways you can run a company. One is to run it on facts. And the other is to run it on opinions. And I told them, I'll take facts from anybody any time, but if we're going to run this company on opinions, we'll go with mine."

I hope you weren't expecting facts today, because all I had to offer was cheap opinions. But I thank you for listening, and I understand that we'll take questions later. [Applause]

Mr. Cline: Gosh, I have to restrain myself. There were a number of things I wanted to say, but I'll wait. Next speaker, from the Internet side of the fence, that is, a company that didn't even exist five years ago, a concept that couldn't even be realized in its current form five years ago, is Alan Fisher, who's Vice President of Development and Operations and also CTO of Onsale. Alan?

Alan S. Fisher: Okay, good morning. Do we have AV here? I'm on. Great.

I'd like to start with some early morning calisthenics. How many of you have been to the Onsale Web site? How many of you are customers? Well, for those of you who don't know Onsale, Onsale is the leading Internet retailer of computers, consumer electronics, sports and fitness gear, and vacation travel. We're actually an old-timer in Web time. We actually started up in late 1993 or early 1994. Our site went live in May 1995. Just to give you a little bit of background on the company before we get to the meat of what I want to talk about today, on building electronic commerce sites, let me tell you about the magnitude of electronic commerce, at least through our eyes at Onsale.

On any given business day, which is seven days a week for us, we have about 150,000 to 160,000 customers come to our site. Those are unique visitors. I'm told that that's larger than the entire set of people that come in to the Mall of America, the largest shopping mall in the United States. That's each and every day. They look at 1,000,002 merchandise items when they come to our store. On an average day we do between 300,000 and 350,000 customer transactions. People putting in bids on our auctions, placing orders on our merchandise, looking up order status, and so forth. We'll send out about 150,000 auction and sale-related e-mails to customers. We'll send out about 550,000 e-mails to people who have subscribed to our steals and deals e-mail list; that's an outbound e-mail that we send to people

advertising what we have for sale today and tomorrow. And we'll charge about 5,000 credit cards and ship about 5,000 orders out of our two distribution centers.

The revenue growth at Onsale has been phenomenal. Last year we did about $208 million in sales. Analysts are projecting this year we'll be doing between $350 and $400 million in sales. This is for a company that commenced operations in May 1995. So really, just less than four years ago.

What I want to spend most of the time this morning talking about is building a successful online commerce site. Kind of on the model of the way we've done with Onsale. And as we see it, part and parcel of that is really exploiting the Internet to its fullest advantage. And to do that, we think there are four key pillars of building a commerce site, or the four Cs, as I like to call them.

The first is commerce. But commerce is more than just putting up a transaction engine, something that just takes orders. We think you have to have a unique selling proposition, a unique selling model, as well. Into that engine, you have to feed the content. The merchandise that you sell. But content is more than just a product description. And then you have to bring customers, or as I like to call them, constituents, to your site. And you have to nip them together to form a community. And a community is more than just subscribers or customers. It's interaction. It's dialogue between that community. And finally, you have to reach out or engage that community, with mechanisms of connectivity, to bring them back time and time again.

Anyone can do it, right? Anyone can put up a catalog on the Internet and bring customers in and sell tuna fish sandwiches, just like the guy does in his garage in Iowa, or Amazon does up in Seattle. It's easy, right? Well, there's a little bit more to it than just putting up a Web site and having a product catalog and saying, "Come and get it."

We believe that you have to have a unique selling proposition, a unique business model that's more than just saying, "Here it is. It's a hundred dollars." At Onsale, we have two unique selling vehicles, what we call Onsale at cost, which is a commodity-based fee or wholesale cost proposition, and Onsale at auction, which is the original Internet auction that we pioneered back in May 1995. Let me describe each of those in a little bit of detail.

With Onsale at cost, we began to realize that certain commodity types of products, like computers, which is about $160 billion in sales, or consumer electronics, which is about $60 billion a year in sales in North American sales, have become commodity products. The prices are well understood. Consumers go out and they price shop on those day in and day out. They know where to get the best deals. So rather than have a traditional margin model, or a retail markup model, we said let's take this to the extreme. We said, "Let's view this not as a retailing model, but as a discount stockbroker would. Just like Schwabb or E-Trade charges you $15 or $30 a trade to sell or buy some stock, regardless of the number of shares or the dollar transactions. We charge you a transaction fee for buying that computer. And we really don't care if you're buying a bag of cables or you're buying 10 notebook computers; we're pretty much going to charge you the same transaction fee.

Because the beauty of this is we're relying on fulfillment partners that are much better able to ship merchandise and provide that fulfillment service than we are. The pricing is true wholesale cost. We sell it to you for what we pay for it. That is, it's just like a discount brokerage model. And the pricing is all open and verifiable. In fact, we even have Price-Waterhouse certify those prices.

If you go to our Web site and you do a pro forma order, you can see all of the fees. You can see what we pay for it, which is what you're going to pay for it; in this case, $1,200. How much the shipping and tax

are, kind of the normal components of an order. We even show you the payment processing fee. That's the fee that we're going to turn around and pay to Visa or American Express for processing the credit card transaction. So everything that is part of that price, we fully disclose to you, including our profit, which in this case is $10. That's the transaction fee. So that's a very novel concept on the Internet, which we introduced in January of this year.

Onsale at auction is the online auction format that we pioneered back in May 1995. In fact, we even have issued and pending patents on certain online auction concepts. And we found online auctions to be particularly good at selling poorly distributed merchandise, like computers and consumer electronics and sports equipment and vacation travel. And you say, "Wait a minute. How can computers be poorly distributed?" Well, there's a little-known secret about these merchandise areas, which is that they have a fairly rapid turnover of merchandise. Each and every month, new products come out, obsoleting the previous month's products. The Pentium III came out last week. That forces a wholesale reduction in price and a channel washout for Pentium IIs, which we just got used to a few months ago. Same thing happens with annual model changes in consumer electronics.

Vacation travel is almost canonical in this regard. Vacation travel is born excess inventory. When the plane leaves the gate or when the cruise ship leaves the dock, if that berth is not sold, it's excess inventory. It perishes immediately. And the great thing about auctions is that they're very good at establishing pricing when you have rapidly changing environments. Computers on average decline in price one percent per week, we found statistically. Which makes them great for auction, because you can determine what those prices are.

Here's how the auction format works. We put the merchandise up for auction each day. On each day, we publish about 1,500 to 1,600 merchandise items. And those are new each and every business day. We have to publish. You can come in and browse or bid. All you need to do to place a bid is to simply fill out a mail-order bid just like you would on any other product, do your bill to and ship to information or payment information. We conduct the auction. And auctions last anywhere from an hour in duration to 24 hours. Sometimes they'll last two days in duration. When we close the auction, when the hammer goes down, we charge your credit card if you're a successful bidder, and ship you out the merchandise. It's very simple. To sum up the commerce, we try to use the Internet to its fullest. Which is to engage you in an interactive sales proposition, which is much, much more than just putting up merchandise for sale.

Now on to content. Content is just about publishing a catalog. As I'll show you in a minute, there's a little bit more than just putting up something for sale. In a traditional mail-order context, you have about 75 to 100 words to make a sales proposition. Just a little bit of copy and a picture. But on our Web site, there's more. In the Internet, you have virtually unlimited real estate, and customers that come to Web sites looking to buy like to see all the details. They like to have every scrap of information we know about a product displayed and fully disclosed. That actually helps them make their buying decision. So let me just walk you through a set of streams here and show you that we have a diversity of content, and kind of where it comes from.

On the top of the merchandise page, and this is a typical merchandise page, we have, of course, the name and the picture of the product. And then the mechanics of the bidding process. This is one of our items that we put up for auction. You can see the status of the auction. The minimum bid, the current bid price, the bid increment, and so forth. And then at the bottom quarter of that page, you can see the current high bidders. The people that you're bidding against are fully disclosed. It's all out there in the open for you to see.

Scrolling down the page a bit, we see the product information. And the product information is quite

detailed. This usually comes from the product manufacturer as opposed to the bidding information, which comes from our database in real time. Customers like to see product specs, especially on technical products like computers and consumer electronics. It's not uncommon to have between 50 and 100 attributes and descriptions out there on a particular product. This can go on for a couple of pages.

Then we have the warranty information. The warranty information sometimes comes from the manufacturer. It frequently comes from the vendor selling us the product, especially if it's excess merchandise that may or may not carry the original manufacturer's warranty. So it's important to us that all products have warranty coverage. So frequently those warranties are provided either by the vendor or by some third party providing a warranty. So we try to fully describe that. You know, who are you going to contact if there's a problem? Who do you call for technical support and so forth?

Next are the sales policies. We're going to tell you how we charge or bill you for that order, what the sales and returns policies are. Because it will vary from item to item, from merchandise category to merchandise category. Even how to contact us for customer service. Finally, there's a shipping and handling and other information which comes from UPS. So the net of it is that it's all fairly complex to weave together a content for a site. We have a team, actually, of about 35 people that build that site each and every day, that publish that content.

Now on to community. Community is just getting some subscribers. It's just getting some customers, right? Well, let me tell you. On the Internet, if you view customers just as customers, you will surely lose. It is much more than just saying, "Here it is, come and get it, anyone can be my customer." On the Internet, you have to engage customers and build a community between them. Here's what some customers say about our site. We've actually had dozens of customers literally e-mail us or write us, saying, "In my company at lunch time, we pretty much shut down so we can watch the auctions close at your site." So I take great personal pride in being partly responsible for the declining productivity in American business. That's part of how we engage customers and convert them into a community.

And in fact, the statistics of our business show that. We have a very high repeat buying pattern from our customers. Most sites would kill for two and a half times, a customer's purchasing two and a half times a quarter from us. Or 77 percent coming from existing customers. Or an average spend over a 12-month period of $750. And you have to buy a lot of books to make up a $750 average spend. In fact, we've even had one customer that's purchased in excess of $1 million from us in the past several years.

And we do that through community. And here's how we do it. On our merchandise pages on our auction side, we show you who you're bidding against. You can see that SK at San Diego is a top bidder on this item. Bidders are also allowed to play games with each other, and they do that through this comment mechanism, which you can see at the right-hand side of the screen. When you place a bid, you can put in an optional comment. And customers do. They try to collude or collaborate with each other. You'll see customers in there saying, "Let's keep the price low. Let's keep it down. Let's stick it to Onsale." You'll see them try to psych each other out. They'll say, "It's mine. You can't outbid me. I'm going to outbid you. Go away." Guess what; it doesn't work. But that's great. Customers have a lot of fun doing this. My favorite comment of all time was a customer who said, "This isn't worth more than $150." His bid was for $175.

The second mechanism that we use is Tell-A-Friend. If you saw on our product page underneath the product picture, there's a little link that says, "Tell a friend." If you click on that, you get this page. Which allows you to put in a little comment and send a copy of this page off to a friend of yours via e-mail. We'll basically push that page out so that he gets it in his e-mail and he can see it, plus your notes that you wrote for it. Now you say, "Okay, come on, this is a gimmick, right?" Well, out of those 150,000 customers that visit our site each day, about 1,500 of them, about one percent, fire off a Tell-A-

Friend. So from my perspective, that's actually great marketing. If you can get one percent of your customers to actually go out and communicate with someone else, some of their friends, about you, that's a stunning success.

The third thing that we do, which I mentioned earlier, is we send out between 500,000 and 600,000 steals and deals e-mails each day to our subscriber base. We typically do this as an HTML format e-mail. And these are self-selecting people. They register to receive this. This is not spam we're sending out. And part of the reason that people register for it and they stay on that list and elect to receive this each day is because we profile our customers. We ask them to tell us about themselves. They tell us what they're interested in, that they're interested in cruises to the Caribbean or desktops or notebook computers, and so we target the mailing specifically on those. So these are individual mailings. Those 500,000 to 600,000 are unique mailings to each of those people. And that's truly one of the nice ways to use the Internet, is as a narrow-cast or point-cast type of mechanism.

Finally, on the topic of community, one resource I'd like to direct you to that you might be able to use is a site called inclusion.net. They have what I like to call message-based community hosting services, which are bulletin boards, e-mail distribution lists, and so forth. They have a very slick mechanism that allows you to weave this into your Web site in literally just 30 minutes. And it's a great way to quickly start to establish communities on your Web site and get customers coming to you and interacting with you and your Web site.

Finally, on to connectivity. How do we reach out to our customers and bring them into our store to make them part of that community? How do we keep them coming back time and time again? Well, traditionally you might say connectivity; that's just e-mail, right? We just put up a Web page and a mail-to on it and we've got connectivity with our customers? Well, as Dogbert would say, you need to do more than just pass them around on the phone. And we do that through three of four different mechanisms.

First, during our auction and sales process, we reach out and communicate with you, the customer. And we do that with a lot of e-mail. I mean, that is a very valid proposition. We send you an e-mail when you've been outbid that says, "Hey, you've been outbid. Come on back and get back in the game." The next thing we do is we have an application called BidWatch, which is a Java-based client application you can download onto your PC. It's for what I like to call our high-velocity customers. It's essentially a Quotron, if you're familiar with the stock-trading terminal for our auction system. We push out to you, through the BidWatch system, realtime price changes in the auction. So as that desktop or notebook changes in price in realtime as it gets down to the final closing bell on the auction, you can see those prices close. That's pushed out. This screen is updated in realtime, it's using push technology based on Marimba Castanet technology. There are a couple of columns that have been edited out here just for the display. But if you want to get back in the bidding, it's one click. You just click that place bid button that increments your bid by one standard increment and you're back in the game again.

One of the ways that you can use the Web that's somewhat nontraditional, much more than HTML, it's actually using push technology to interact with your customers. When you win, we send you out an e-mail confirming that you've won. In fact, we'll send out a whole stream of e-mail to you at that point. We'll tell you not only via e-mail that you won, we'll also tell you when the item has shipped from our warehouse. We'll even get a download from UPS and tell you when and where it's been received at. A lot of our customers take delivery at their offices, so it may be sitting in a mail room. If the UPS delivery man goes out and attempts to deliver it at your house and you're not there, we'll even send you an e-mail saying, "Hey, we made a delivery attempt, but you weren't home."

We have an ethic at Onsale that says that any scrap of information we have about you or your order in

our system ought to be available to you to view online. One of the mechanisms that we use is our order status system, which is fairly sophisticated. We display the entire chronology of your order online. And you're able to initiate customer service requests directly from that. You can see, if you look at the bottom of the screen, when we charged your credit card and for how much, when we sent the order to the warehouse, when the warehouse received or acknowledged it, when the warehouse shipped it. We'll track it through the UPS system. But we'll show you when it was received or when the delivery was attempted as well. If you need to send it back, we'll show you the RMA when that was issued. When the product was received back. When the product was inspected. When your credit card was queued up to be refunded. When the credit card refund was approved and so forth.

Finally, we have a fairly elaborate online customer service mechanism. We found that e-mail does not scale for customer service. And so, we built a fairly innovative system called ARC, for Action Request Center. Instead of getting an inbound e-mail from you that says, "Hey, my computer arrived and it won't boot up. Fred." Tell us about yourself, Fred. Maybe a customer number or even your last name might help us solve your problem.

[Tape Turn]

Mr. Fisher: . . . that same information into a Web form which goes into our database. We just ask you to provide one additional piece of information which is your order number. And by doing that, we can workflow route this request directly to the right customer service representative who happens to be working that day of the week. They can see it and process it. In fact, we log all of the back and forth interaction between you as a customer and us as our customer service center, which you can see on the screen here.

The top one of these from Robin Christie is from a customer saying, "Hey, I had a question." The response from our customer service department, Stacy Ledbetter in Customer Service, responds a couple of hours later. And this can go on back and forth. We log all of that, and that's visible to you at our Web site. We display that and you can interact with us at the bottom that's not shown. Here is an update button that allows you to put in additional comments that again are workflow routed to our customer service people.

Finally, in summary, I'd just like to say one last thing. The four Cs, as I like to call them, are really about engaging customers to come to your Web site. It's not just about publishing a mail-order catalog. If you want to be successful in the electronic commerce world, you need to engage those customers and you really need to leverage the Internet to its fullest extent, its interactive nature. And that, to me, is really the one key that I'd like to leave you with today. Thanks very much. [Applause]

Mr. Cline: I think we're going to have some fun in the Q&A, because did it occur to any of you like it occurred to me that auction sites are competitors to newspapers classifieds? It's like classifieds on steroids.

My last speaker, before we get to the Q&A, is Roger Fidler, who was with Knight-Ridder earlier in his career, and now he just told me he got promoted. Two of my speakers got promoted on their way here. I guess that's a good sign. He's a professional resident and now tenured professor at Kent State University. But Roger has spent most of his career thinking about how to go from traditional media into new media. And what does that mean and what do we need in terms of technology, and what do we need in terms of new ways of thinking about it? So without giving anything away any further, let me invite Roger up here. Roger? [Applause]

Roger Fidler: Good morning. I want to thank Craig Cline for inviting me to speak with you today. I'm especially grateful, because one of the conditions for becoming a tenured full professor at Kent State University was that I take a vow of poverty. So when Craig offered to waive the conference registration fee for the full five days, I could hardly refuse. At Kent, that's really the equivalent of the total faculty travel budget for the next 10 years; I'm sure some of you've felt the same way. [Laughter]

If you're wondering about the title of my presentation, which is now up on the screen, I want to assure you that I haven't joined a millennium cult since leaving Knight-Ridder. Nor have I begun stocking an underground bunker somewhere in Montana, at least, not yet. My intent in the brief time that I have been given is to challenge some of the conventional wisdom about the future of print media. Some years back, the *National Lampoon* published a parody of American newspapers called the *Republican Democrat.* Some of you are probably too young to remember this. As I recall, the main headline on the front page shouted, "Two area women feared dead in Japan." Immediately below this bold, black type was a deck headline, the kind you typically see in the *New York Times* front page. It read, "Japan sinks beneath the ocean after huge earthquake." Typical localization of a story.

I was reminded of this parody when I recently read a news item on the Web attributed to the Canadian Post by the editor and publisher of *Interactive!* Web site. The item was a summary of Bill Gates' remarks about the publishing industry at the World Economic Forum in Switzerland. Apparently the highlight was Chairman Gates' prediction that the year 2000 would mark the beginning of the end for newspapers and for all other paper publications. Well, for those of you who live your lives on the Web and never get ink on your fingers, this probably doesn't raise any eyebrows. But for conventional publishers, this is a terrifying prediction.

So I'm sure the bold headline for this story, "Newspapers Near Death, Gates says," caught the attention of many mainstream publishers. I'm also sure that it would have caught the attention of *National Lampoon's* editors if they had planned to publish another edition of the *Republican Democrat* today. Given all of the other apocalyptic predictions for the year 2000, they probably would have written a deck headline that read something like this... [Laughter] We can tell what the priorities would be here. And I certainly don't mean to trivialize Gates' vision of the future, if he has one other than controlling the world. [Laughter]

Nor do I intend to make light of those who are actively preparing for the second coming or the Y2K bug. But to paraphrase Mark Twain, reports of the impending death of newspapers and other publications have been greatly exaggerated. Assuming the world as we know it doesn't come to an abrupt end on January first, I don't expect to see all the world's printing presses shut down, or to see the demise of paper next year or any time in the next century, for that matter. Contrary to popular belief, the digital revolution, which we are now witnessing, is not about replacing established forms of communication media. It's about the continuing evolution and expansion of the human communications system. Now, that may not be a great revelation to you, but it's one that's often overlooked.

For at least the past 10,000 years, our species has been reluctant to discard any of its existing communication tools when new tools have emerged. Let's face it. We're communication packrats. It's in our genes. We may modify older communication technologies or use them in different ways at different times, but we rarely throw them away. Just to give you a few examples, the papyrus scroll was developed about 5,000 years ago. It served as the dominant communicant technology in the civilized world for some 3,000 years, until the emergence of books with fixed-size pages bound on one side. Even then, scrolls remained popular for many centuries. Now, scrolls are no longer commonly used today, but they have not died out either. They're still routinely used by Jewish rabbis and scholars and are occasionally used for official proclamations.

Moreover, modern paper publications continue to use variations of the columnar grid originally developed by Egyptian scribes for organizing written information on the scrolls. Now, in this century, we've seen an explosion of new communication technologies. And with the emergence of each new medium, pundits have been quick to predict the demise of old media. Broadcast radio in the 1920s was expected to replace newspapers. When television came along in the 1940s, it was expected to replace radio and newspapers as well as magazines, film, and theater. Yet, all have adapted and continue to coexist.

It's true that many media companies have suffered and died when new media emerged. But their demise resulted primarily from management's failure to adapt to change, not from the death of a communication medium. This brings me back to Chairman Gates' remarks at the World Economic Forum in Switzerland, and to the main subject of my presentation.

According to the *National Post,* in place of paper and printed publications, Gates proposed the tablet, which he described as a wireless, one-pound wafer-thin screen that could provide readers with information at high speeds. Gates is reported to have claimed that the development of the tablet could occur within a year. Well, I'd like to tell Gates this is not exactly a new idea. As with some of his other ideas, they're probably buying the companies coming out with this idea soon. The notion that portable electronic tablets might one day actually replace or compete with paper as a display medium for newspapers and other printed documents has been around for quite some time. Arthur C. Clarke provided one of the earliest and most prescient versions of the tablet, which he called a newspad, in the 1968 science fiction movie and book *2001: A Space Odyssey.*

In the early 1970s, Alan Kay, then a computer scientist for Xerox Parc, proposed a similar portable device that he called a DynaBook. Since then, there have been numerous attempts to develop a paper-like tablet for viewing and interacting with electronic publications and documents. In the early 1990s, Go Corporation, Slate, and several other companies tried to jump-start the tablet concept. And for a brief time, it looked like they might succeed. But by 1995, these companies had folded their tents. And attention shifted to the more immediate electronic publishing opportunities provided by the Internet and the Web.

Now, this led some pundits to believe that the Web had essentially killed the tablet concept. But they were wrong. In recent months, four start-up companies--SoftBook Press, Nuvomedia, Everybook, and Librius-have attracted a great deal of press by attempting to market their versions of the tablet called the e-book. Several other companies have announced plans to develop another version of the tablet designed for portable, wireless Web browsing. And I have no doubt that we'll see more companies enter the tablet e-book field in the next year or two. All, of course, are hoping to claim a dominant share of what analysis are estimating to be a market of $20 to $50 billion a year in the next decade.

Despite my tenacious belief in the tablet concept, however, I'm reasonably certain that most of these companies, like their predecessors, will not succeed in their quest. The reason will not be for lack of effort or market demand. Our studies at Kent State University have clearly shown that the market concept has a broad appeal and a wide range of practical applications. The problem that all tablet and e-book developers have faced and continue to face is two-fold. The display and standards. And both are formidable obstacles.

Back in 1981, when I wrote my first story about the future of newspapers, I speculated that within 10 to 15 years, electronic editions of newspapers would be displayed on lightweight magazine-sized tablets. By 1991, 10 years later, it seemed that affordable tablets with paper-like displays might be just around the corner. But that corner has proved to be further away than it first appeared. The multi-billion-dollar question, therefore, is how good does an electronic display have to be for tablets and e-book reading

devices to be widely adopted?

The four e-book companies I mentioned are, of course, betting that their displays are good enough now to at least get a solid foothold in the market. I've had an opportunity to discover three of these companies. Even though they're not actually to scale, I've borrowed their GIF images from the Web. And just to add, not only have we had a chance to experiment with these three devices, but we now have 15 of the SoftBook reading devices in the hands of students and faculty at Kent State University. Students in my course on the future of print media will be evaluating the performance and the utility of SoftBook devices at the end of the semester. If all goes as planned, we'll be conducting a much more extensive test of e-books at Kent this fall.

Based on my preliminary observations, I believe that the technology being used for displays in e-books is close to the threshold of acceptability. But the displays are still not quite there yet. What's needed, of course, is a lightweight, low-power, low-cost, high-resolution, full-color magazine-sized reflective display built on durable plastic substrates rather than on fragile glass. That's a pretty tall order. But there are, in fact, several technologies coming out of laboratories now that look quite promising.

One of the technologies that has all of these qualities is the cholesteric invented at the Liquid Crystal Institute at Kent State University. While it does not yet match the contrast and resolution of ink on paper, that's going to be a tough one to match, it's still an order of magnitude better than any electronic display that I've seen. Kent Displays Inc. in Kent has licensed the technology from LCI and plans to incorporate it into its own e-book reading devices this summer.

The other problem I mentioned is standards. We can be quite certain that most individuals are not going to embrace the idea of buying more than one tablet or e-book reading device, at least not in the beginning. And most publishers are not going to create multiple electronic versions of their publications, if they can avoid it. Ideally, all electronic editions of books, newspapers and magazines and journals should be accessible and readable on any tablet or e-book. Proprietary devices and closed networks are, in my view, bad ideas. The goal for all e-book developers must be simplicity, exchangeability, and ubiquity. I understand the problems associated with security and copyright protection, and those are major problems. But they are not a justification for incompatibility.

In conclusion, I would like to stress three points for my presentation. First, don't write off paper and printed publications yet. Paper has many redeeming qualities that will be difficult if not impossible for digital systems to entirely replace. For example, once created, paper publications can be easily preserved for centuries. And they can be read by anyone at any time and nearly any location without special technologies or knowledge other than the language in which the document is written. I'm quite certain that typographic publications printed on paper will coexist and coevolve with digital publications printed on electronic displays well into the future. Just as the horse didn't die out after the invention of horseless carriages, paper is unlikely to disappear with the invention of paperless displays and storage media. Like the horse, paper will simply be repurposed and valued differently in the next century.

Second, tablets and e-books will take electronic publishing in a new direction. The Web has introduced a great many people to electronic publishing. And I'm certain it will continue to evolve as a popular, interactive source of information, entertainment, and transactional services. But with the emergence of document-based, portable electronic displays, we will see a further blending of traditional publishing concepts with hypermedia. Electronic publications developed for tablets and e-books will be compatible with but distinct from the computer-based Web. In particular, I believe we'll see a revival of the familiar fixed-page format in a portrait orientation. And we'll see a renewed appreciation for typography and the craft of publication design. But we also will see significant value added by interactive hypermedia technologies.

Third, I cannot stress enough the need to keep it simple. I didn't elaborate on this point earlier, but simplicity is the essence of the tablet vision. Tablets and e-books need to be as easy to use for reading electronic publications as portable CD players are for listening to music. These devices should not be perceived as stripped-down PCs. They represent an entirely new class of electronic device that should not require users to constantly upgrade software, master arcane commands, or read a manual. And it should not have to be replaced every 18 months or so the way we do with PCs.

If the publishers adopt open, interchangeable standards and keep their devices simple to use, I'm confident that tablets and e-books will become commonplace in the next decade. And that electronic publishing will finally become profitable for newspapers, magazines, and book publishers.

Before I close, I would like to put in a plug for Kent's Future of Print Media Virtual Symposium. This is an ongoing, Web-based symposium where we provide thoughtful, nontechnical presentations from people who are involved in cybermedia research and the development of electronic publishing. We launched the symposium last summer and have seen the number of visitors grow rapidly in the past few months. So I hope you will check it out and let us know what you think. And that perhaps some of you will be willing to be participants in this symposium. Thank you and best wishes. [Applause]

John Duhring: Can we have our mikes on? I'd like all the mikes on all the time. As you can see, there are microphones in the aisles. Can we have the house lights up, please? And I'm sure a lot of you have questions, but we'll get started up here. Craig asked me to fire off as the first question, and I sort of think of myself as the ombudsman for the audience. So as you make your ways to the microphone, all, I've been thinking through the presentations, and we'll start with a first.

It seems that this year being 1999, we can talk about watersheds, even though maybe we aren't at the verge of the verge, we're at something. And two statistics were brought to my attention recently. One is that screens, the manufacturing of screens, has been driven by the television industry up until this year. There'll be more screens sold this year on interactive devices, for the first time. That seems like an interesting watershed.

The other is games and entertainment. This year will be the first year where more interactive games will be sold than there will be movies. Dollars' revenues coming into movies. And it seems like both of those indicate a shift from a passive, broadcast, recipient-based medium to an interactive medium. Is this a snowball that we've been looking at? Is the Web got enough critical mass, good stuff? Is e-commerce engaging people enough? Are we finding what the goods are that really will create the value propositions that carry us forward? Are we seeing that yet? I'd love each of you to comment.

Mr. Ingle: I'll start. It seems to me that the single biggest characteristic that the Internet has brought to the media party is, in fact, interactivity. None of the other media were really interactive. You just, we print it, you read it; that's the deal. But with interactivity, really for the first time ever, the reader/user--we don't know what to call them these days--is in charge. And that's the first time that's happened. It seems to me that as we go forward, display technology will get better and better. There's progress being made. I've seen a 600 dpi display and looked at the body type with a loupe and it's stunning, just stunning.

The announcement a couple of days ago about the new generation of Sony Playstation, with 128-bit CPU, lot more memory, etc., that's not going to be just a game player. Although it certainly will do that. But it'll have capacity well beyond previous game hardware.

So I think that we will see more and more simpler-to-use devices. I mean, this computing stuff is really

hard. I've been doing it for a long time. And Windows still just drives me nuts. We can't figure out why it crashed. Or why you've got two DLLs that are conflicting. And stuff like that. So devices like the Sony Playstation, just as one example, I think are going to change the momentum of electronic retrieval of information quite a lot.

Speaker: Bob, last night I spilled just a little bit of orange juice on the keyboard of my laptop when I was trying to send an important e-mail. The next thing I knew, the laptop was asking me to update its BIOS. And I was basically out of action on that. The thing that appeals to me about the purpose-built devices, and I think there is a real revolution that is really going to threaten Microsoft more than Linux and Amigas and so forth, is that people will be developing purpose-built devices for specific things. Like if I'm on the road and what I mainly need to do is check e-mail, why do I need to lug along this general-purpose machine? And the thing that appeals to me about the books, Roger, I had the pleasure of using the Rocket E-Book for a while, is that it doesn't even have a keyboard; it just has the bare minimum tools you need. Mainly scroll keys. And it has a wonderful ability to remember where you left off when you go from one book to the next. So I think that's a really good point, because not only is the Internet changing the way we do things in terms of interactivity, but it's also changing the nature of how we need to interact with the information that's out there. We don't necessary need a sledgehammer to solve the problem that a pair of tweezers would solve.

Speaker: Roger, do you have a SoftBook?

Mr. Fidler: Yes, I do.

Speaker: How long you been using it?

Mr. Fidler: Since December. I took it on my vacation to Peru with me; I was in Macchu Pichu reading [inaudible], which was a little strange. But yes, it works pretty well. Simplicity is the key. And I can't emphasize that enough. I mean, as Bob, I've worked with computers a long time, and I get even frustrated with the Macintosh at times, with things that conflict and don't work properly. Especially some of the new Microsoft software. [Laughter] But at any rate, the SoftBook, or any of these e-book devices, that's the great thing about them, is I don't have to load software, I don't have to worry about upgrading the software. That it's all done for me. And it turns on as soon as I open the cover. That's a nice thing. We're used to that with print media. We don't have to worry about plugging our newspaper in when we get it. We can open it up and read it. And that's what's really happening with these devices.

The thing I want to emphasize, though, is that yes, computer displays that up to now have been based on the television screen are still the popular screen. But that's really going to be changing pretty quickly. I see over the next few years more reflective displays coming out that are much closer to ink on paper than anything you've seen up to this point. And it's really a dramatic difference. When I worked with the people at Liquid Crystal Institute and they show me some of the things they've developed, I'm just blown away. I mean, it's so easy to read. I can take it out in bright sunlight and it doesn't wash out. So I could read it on a park bench somewhere. That's all important.

So what we're really going to see now for the first time is the development of a display technology that is more based on the document rather than on television. So I see a couple of different routes emerging from this. Certainly the content that will be displayed on these devices will be Web-compatible. But I see the form of the content beginning to blend more of the traditional print values with the hypermedia values. And I think people like that. The research we've done at Kent, we've gone out to shopping malls and we show them different concepts and get their reactions, is people like familiarity. They don't like to read manuals. They want something to be really intuitive and the e-book concept or the tablet gives

people something that they can easily understand and don't have to have a manual to use.

Speaker: I have two SoftBooks. Now, why would anybody in his right mind have two of them? The answer is the first one wouldn't connect with the server. So I sent off an e-mail and they sent me another one. It doesn't connect to the server either.

Speaker: Interesting.

Speaker: Not terribly useful without any content in it.

Mr. Fidler: We have 15 devices; so far all of them have worked properly. But the one frustrating thing about it that I find is that they're all trying to develop proprietary standards and approaches, which I don't think is going to work. And another thing is, I brought a SoftBook with me, but it's not the one that I took to Peru with me where I had loaded some books that I wanted to read. And so, I don't have those books on this software. I can't move them from one device to another, which sort of drives me nuts. And it's going to be a real problem for our students as we develop things and we'll be moving them to other students and letting them try out. And anything they may have purchased on one SoftBook, they can't put onto another device.

Speaker: Even with SoftBook, you have the problem of if you leave your book behind and you really want to finish it, and that's how I always end up with two or three copies of the same book. I'd like to take a question back here.

Audience: This is a question for Alan Fisher. You've encouraged people who are setting up e-commerce sites to form a unique selling model. And one of the markets that consumer goods manufacturers seem to covet is the college student market. I guess they spend over a hundred billion dollars a year. And there was an announcement in yesterday's *Globe* about a newly funded e-commerce company targeting that market. Do you have any idea how many college students are visiting Onsale and how much money they're spending?

Mr. Fisher: I don't know that we've ever studied our demographics quite to that extent. We think of ourselves mostly as a business-to-business site, and that's largely driven by the type of hard goods that we sell, principally computers. About 70-75 percent of our sales are computers and computer peripherals. That tends to be averaged higher, much more towards the business-to-business market. Now, the other three segments, or two segments of hard goods that we sell, consumer electronics and sports and fitness equipment, are much more consumer-oriented, as is vacation and travel.

Now, frequently, it's the same physical customer that's buying both. We're seeing cross-pollination between the parts of our site. It's the same customer. But those are very much pitched in a consumer mode to someone when he's thinking in a consumer, an individual, consumer frame of mind rather than a business purchasing context. But we do have people from all walks coming into the site, absolutely.

Mr. Cline: Alan, when I was listening to your presentation, I had two thoughts, one of which I voiced earlier. But I'll deal with this second one first. And that is, it occurred to me when I saw the messages from people during the auctions that you're really encouraging the same instincts that those people go to Las Vegas or Atlantic City, pulling that thing, you know, just one more time and you're going to be the winner. And it is really an addiction and I think there are probably some social implications of that.

But my earlier thought was that in fact I had picked up a copy of Business 2.0 before I got here, and it has the dinosaur bones on the cover. We all know what this means. And it says, "Are you next?" And

one of the 20 industries it says is about to be fossilized is newspapers for the usual reasons, which is the classified ad revenue base, which is considerable, is at threat because of online alternatives. And one of the online alternatives they cite is eBay and Onsale, as being auction sites. Which if you think about it, what people try to accomplish wtih a classified ad is to sell something. And what they'd love to do is sell it to the highest bidder. But because it's not interactive, you can't do that. And so, auctions really are newspaper classifieds on steroids.

And to Roger's point, I would argue that in any situation, if you look at animals and how they survive and when they go extinct, it's not necessarily by choice or by outside intervention; it could be that their ecosystem, the conditions they need to survive, just changed to the point where they can't survive. And that's my worry about newspapers. Not that people want to stop reading them, and we certainly have a whole class of people who don't have access to the Internet where that's the only choice. But I think where newspapers are under attack, and one reason why you do have Knight-Ridder moving to Silicon Valley and being so aggressive in terms of looking at the new media, is that things like the interactivity that's provided by something like Onsale or eBay is actually a net improvement on it, a Darwinian next generation of the previous approach towards solving a problem, which in this case is selling goods that somebody wants to sell. Comments?

Speaker: Yes, I'll respond to that, being somewhat familiar with the auction business. I think there are certainly some similarities, but there are also some subtle differences which lead me to believe that the newspaper classified is not anywhere near extinction. First and foremost, newspaper classifieds are very local and a lot of times carry merchandise that can only be sold and delivered locally. You're not going to buy a used car or a sofa or dining room set from someone online unless that online community is very focused on a geographical area where the individual can go and peruse the merchandise, inspect the merchandise.

But even beyond that, and especially in the person to person auctions, which is characterized by Yahoo auctions, by eBay, Excite has part of their site which does person-to-person auctions, I think there's a subtler dynamic. If you look at the people that sell, they really established a community. Those are really a community of collectors in there. These are people that buy and sell Beanie Babies, that buy and sell coins, that buy and sell antique advertising memorabilia and so forth. That's what has made eBay a success, I think, is that it's really pulled together a lot of people that have collected this type of merchandise, for years and years, given it a national/international audience, which is really kind of the level at which you need to communicate with your colleagues out there who are also collecting this type of stuff.

And that's something that the Net can do that you cannot do in a newspaper classified. And I think just wasn't being done before newspaper classifieds. So to me, it's really that subtle distinction between the community that's being built on Yahoo auctions or eBay and the type of selling that's going on in newspaper classifieds. I really think they're different.

Mr Duhring: I keep wondering if people are going to take these little SoftBooks out on their lunchbreak and be buying [inaudible] elsewhere. We've got another question back here.

Audience: Actually, I guess this would be directed at Professor Fidler. I'm one who tends to do my reading of newspapers online, I do my shopping online, etc. And I really like the concept of e-books. I have handhelds and all that. But the problem is power. What have you looked at, have you been looking at like solar cells or something to power the things that can run on like the light you need to read them?

Mr. Fidler: Well, the key point to developing a successful e-book is developing a device that isn't going

to have a low power reading after a couple of hours. You want something redone, you're going to have to worry about that. The only way that's going to be accomplished is when we have developed low-power reflective displays. And that's the area that I've been following pretty closely. With the cholesteric technology that's being developed at Kent, the power requirement is such that it doesn't require any power to maintain the image when you have the image on the screen. So when you're reading, you're not draining the battery. And the only time you're using power is when you're turning pages. And we're estimating that we can get somewhere in the order of about 400 hours of use before recharging. We are now actually looking at whether or not the device can be made low power enough that we could, in fact, put photo cells on the device, so that you might not ever have to worry about recharging the cell. Ultimately, that will happen. I still think it's probably five years out before that's going to be possible.

Speaker: Question up front?

Audience: I had a question on the Onsale side. Actually, a couple of questions. First of all, in terms of revenue, net revenue, is the wholesale side more profitable or the auction side?

Mr. Fisher: The wholesale side is right now about 22 to 25 percent of our business. And profit is kind of an interesting-- it depends on how you measure it, and there are some subtleties there, which I'll just describe. A lot of it has to do with credit card fees and whether that goes above the line or whether it's down in SG&A. And it turns out for accounting reasons they're treated differently. Also has to do with distribution costs. In the case of Onsale at cost, which is our direct wholesale model, the distribution and fulfillment is being provided by tech data and shortly some other partners as well.

Audience: I assumed it'd be like Ingram, TechData, things like that.

Mr. Fisher: Right. In our case, it's TechData. Whereas with the auction side of the business, we're doing most of the distribution and fulfillment. That's coming out of R2DCs. And that comes out typically of SG&A. So while the gross profit margins appear to be higher in the auction model, by the time you net out some of those expenses that we have related to the auction model, namely the distribution expenses and so forth, you actually get down to pretty comparable margins if you were to put them side by side and take out the true costs between both the wholesale model and the auction model.

Audience: Even though gross sales is larger on the auction side.

Mr. Fisher: Yes. I mean, you have to remember that our Onsale at cost is only a month old now.

Audience: I didn't realize. I wasn't fluent with you actually until I saw the demo. Another question I had is, is that being supported from the manufacturers at some level? I mean, at a five to ten dollar transaction cost, with such a high-ticket, low-revenue item, with tech support and problems and returns, there must be some other stream of revenue that must be coming in. I'm curious what that is.

Mr. Fisher: Absolutely. There are actually two or three streams of revenue. There's a transaction cost. Also, part and parcel of the computer industry and also many other hard goods industries as well as it's true of consumer electronics, it's true of automobiles, is a concept in the computer industry that's called market development funds. In the auto industry there's dealer rebates or things like that, where basically the manufacturers are partially underwriting our cost to publish or to advertise the merchandise. So if you open up the newspaper and you see an ad, you know, advertising a particular computer, that's being paid for in part by the computer's manufacturer, not just the reseller.

Audience: Co-op dollars.

Mr. Fisher: The reseller. Co-op dollars, right. So just like everyone else in this industry, we get a stream of co-op dollars that come back to us as well. So you have the transaction fees and co-op dollars, principally, that constitute our revenue stream.

Audience: Yes, we see that hitting several industries. My final question is, there's a big trend for people to go direct in a lot of areas, and you can argue both sides, being independent or direct. You know, you've got Dell doing used equipment and refurbished equipment and wholesaling things. Where do you see it in terms of your business on the computer side and the travel side, versus consumers going direct with travel e-mail lists, last-minute deals on unused inventory, in the computer side?

Mr. Fisher: The important thing to remember about these markets is that they are huge markets. The computer market just in North America is a $160 billion in size. So the net of it is that there's not going to be one successful model, there's going to be a half a dozen successful models, because each of those models is going to speak to or address a different customer base. You've got guys like MicroWarehouse, which are built you would think on a mail-order catalog model, but also on a direct sales model. When you call in to MicroWarehouse, you actually have an assigned account representative and so forth. That type of model works very well for an IT department that does ongoing purchasing over a period of time. They look for a different set of services than Onsale provides. Onsale does not provide any of that level of service. We are a low-cost provider. So people that don't need to have account relationships will come to us. So that's typically a home office, small office, up to small- to medium-sized businesses. That's not going to be the Fortune 1000, Fortune 2000 business for us. That's not our target market.

Same thing with Dell. Dell is basically a direct corporate reseller. And that's the community that they're speaking to. Gateway, on the other hand, tries to reach out to more of a consumer. And their business model is different because of it. So I guess the point I'd like to leave you with is I think all of this will be successful. We're just operating in different ends of the market. Question in the back?

Audience: Yes. Most of the successful or at least popular e-commerce sites seem to be those of companies that are selling someone else's products. Like Amazon or Onsale, or companies that were traditionally mail-order, like L.L. Bean and Lands' End. How do you recommend that a traditional manufacturer do e-commerce without competing directly with his own distributors?

Mr. Fisher: I think a lot of that depends on the industry. In the case of computers and consumer electronics, those have traditionally been industries that kind of eat their young. It's very common for manufacturers to go out and directly compete with the retail channels. And the industry kind of got over the whole notion of channel conflict about five or eight years ago. And that's because of the commoditization of those industries. Everyone knows what the street prices are on these things. And so, it tends to force that. So if the manufacturers themselves want to stay alive relative to their competitive manufacturers, they have to do that.

I think there are other industries that are completely different. I was on a panel about six or eight months ago with an individual who just opened up a site called All Herbs that sold herbal remedies over the Web. And that, to me, is a classic type of fairly high-margin channel where you can have distribution out there selling alongside the actual primary manufacturer or even distributor, and not run into any channel conflict at all because they're speaking to widely different audiences. One site might be content-heavy, the other might just be pure product distribution. So I think a lot of it just has to do with the particular industry that you're in.

Mr. Cline: Okay, thank you very much. I think this was a great session. I want to thank again our speakers.

[Applause]

[End of Session]